

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Cedar Springs, Michigan	County Kent
Fiscal Year End June 30, 2007	Opinion Date September 26, 2007	Date Audit Report Submitted to State October 16, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

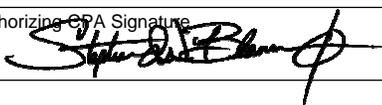
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	N/A		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number (616) 975-4100		
Street Address 2330 EAST PARIS AVENUE SE		City GRAND RAPIDS	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801



**CITY OF CEDAR SPRINGS  
CEDAR SPRINGS, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

# CITY OF CEDAR SPRINGS

## TABLE OF CONTENTS

---

	<u>PAGE</u>
<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-10
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - General Fund	18
Statement of Net Assets – Proprietary Funds	19
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Statement of Fiduciary Assets and Liabilities – Agency Fund	22
Notes to Financial Statements	23-36
<b>Combining and Individual Fund Financial Statements and Schedules</b>	
General Fund:	
Detail Schedule of Expenditures and Other Financing Uses	37-41
Nonmajor Governmental Funds:	
Combining Balance Sheet	42-43
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	44-45
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Major Street Special Revenue Fund	46
Local Street Special Revenue Fund	47
Refuse Pickup & Disposal Special Revenue Fund	48
Library Special Revenue Fund	49
Sidewalk Special Revenue Fund	50

# CITY OF CEDAR SPRINGS

## TABLE OF CONTENTS

---

	<b><u>PAGE</u></b>
<b>Combining and Individual Fund Financial Statements and Schedules (Continued)</b>	
<b>Component Units</b>	
Downtown Development Authority:	
Statement of Net Assets and Governmental Funds Balance Sheet	51
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances	52
<b>Schedule of Indebtedness</b>	53-55
<b>Internal Control and Compliance</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56-58



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

## INDEPENDENT AUDITORS' REPORT

September 26, 2007

Honorable Mayor and  
Members of the City Council  
Cedar Springs, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cedar Springs, Michigan (the "City"), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Cedar Springs, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of Cedar Springs, Michigan as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2007 on our consideration of the City of Cedar Springs' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cedar Springs' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Cedar Springs' basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the City of Cedar Springs, we offer readers of the City of Cedar Springs' financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- Levied Main Street and Pine Street special assessments
- Contracted for the design of a new library and received over \$300,000 in donations for this project.
- Issued Michigan Transportation Fund Bonds in amount of \$135,000 for infrastructure improvements.
- Adopted a new DDA finance and development plan to provide for the continuation of the DDA.
- Purchased property at 58 Main Street and 139 N. Main Street.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Cedar Springs' financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Cedar Springs that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police and fire services, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services.

The government-wide financial statements include not only the City of Cedar Springs itself (known as the *primary government*), but also a legally separate Downtown Development Authority and Local Development Finance Authority for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Cedar Springs, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, other capital projects fund, and new library facility gift fund, each of which is considered to be a major fund. Data from the other twelve governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

**Proprietary funds.** The City of Cedar Springs maintains three proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Cedar Springs uses enterprise funds to account for its sewer and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs of its motor vehicle and equipment usage internally among the City's various functions. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operation, of which both are considered to be major funds of the City of Cedar Springs.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 22 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-36 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 37-52 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Cedar Springs, assets exceeded liabilities by \$9,090,699 at the close of the most recent fiscal year.

A portion of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Tables for Management's Discussion and Analysis

#### City of Cedar Springs' Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current and other assets	\$ 1,825,404	\$ 1,894,695	\$ 1,258,728	\$ 882,858	\$ 3,084,132	\$ 2,777,553
Capital assets, net	3,832,376	3,172,026	8,705,102	9,110,244	12,537,478	12,282,270
Total assets	5,657,780	5,066,721	9,963,830	9,993,102	15,621,610	15,059,823
<b>Liabilities</b>						
Long-term liabilities	2,486,352	2,356,576	3,881,000	3,957,000	6,367,352	6,313,576
Other liabilities	85,732	87,758	77,827	76,840	163,559	164,598
Total liabilities	2,572,084	2,444,334	3,958,827	4,033,840	6,530,911	6,478,174
<b>Net assets</b>						
Invested in capital assets, net of related debt	1,370,538	842,718	4,824,102	4,893,244	6,194,640	5,735,962
Restricted	1,221,539	720,994	167,478	-	1,389,017	720,994
Unrestricted	493,619	1,058,675	1,013,423	1,066,018	1,507,042	2,124,693
Total net assets	\$ 3,085,696	\$ 2,622,387	\$ 6,005,003	\$ 5,959,262	\$ 9,090,699	\$ 8,581,649

Net assets of the City increased by \$509,050. The business-type activities increase in net assets of \$45,741 was primarily due to an increase in rates charged to residents for utilities services. The governmental activities increase in net assets of \$463,309 is partly the result of increases in the taxable value of property and the expiration of the former DDA financing agreement (i.e., the DDA did not capture any taxes in the current year) and therefore an increase in property tax revenue and partly the result of substantial investment in capital outlay via capital grants.

## City of Cedar Springs' Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 175,200	\$ 206,513	\$ 1,035,190	\$ 1,033,557	\$ 1,210,390	\$ 1,240,070
Operating grants and contributions	243,911	252,877	-	-	243,911	252,877
Capital grants and contributions	356,900	284,127	-	-	356,900	284,127
General revenues:						
Property taxes	1,215,039	1,078,438	-	-	1,215,039	1,078,438
State revenues	305,205	375,547	-	-	305,205	375,547
Unrestricted investment earnings	123,101	97,874	48,469	31,995	171,570	129,869
Total revenues	<u>2,419,356</u>	<u>2,295,376</u>	<u>1,083,659</u>	<u>1,065,552</u>	<u>3,197,810</u>	<u>3,360,928</u>
<b>Expenses</b>						
General government	650,866	479,286	-	-	650,866	479,286
Public safety	742,126	701,946	-	-	742,126	701,946
Public works	58,594	269,959	-	-	58,594	269,959
Highways and streets	183,078	143,992	-	-	183,078	143,992
Recreation and cultural	221,529	205,626	-	-	221,529	205,626
Interest on long-term debt	101,054	93,910	-	-	101,054	93,910
Water	-	-	344,376	331,333	344,376	331,333
Sewer	-	-	692,342	694,448	692,342	694,448
Total expenses	<u>1,957,247</u>	<u>1,894,719</u>	<u>1,036,718</u>	<u>1,025,781</u>	<u>2,993,965</u>	<u>2,920,500</u>
Change in net assets before transfers	462,109	400,657	46,941	39,771	509,050	440,428
<b>Transfers</b>	<u>1,200</u>	<u>64,095</u>	<u>(1,200)</u>	<u>(64,095)</u>	<u>-</u>	<u>-</u>
Change in net assets	463,309	464,752	45,741	(24,324)	509,050	440,428
Net assets, beginning of year	<u>2,622,387</u>	<u>2,157,635</u>	<u>5,959,262</u>	<u>5,983,586</u>	<u>8,581,649</u>	<u>8,141,221</u>
<b>Net assets, end of year</b>	<u>\$ 3,085,696</u>	<u>\$ 2,622,387</u>	<u>\$ 6,005,003</u>	<u>\$ 5,959,262</u>	<u>\$ 9,090,699</u>	<u>\$ 8,581,649</u>

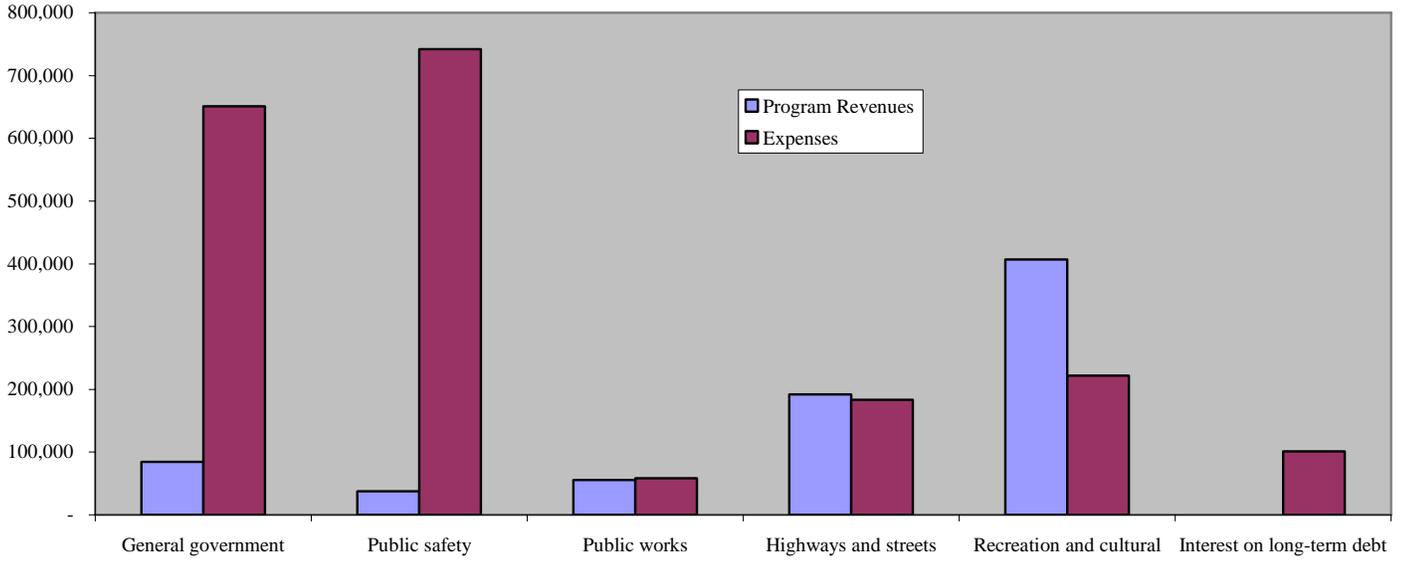
### Governmental activities

During the year, the City continued its emphasis in public safety by investing \$742,126 or 38% of governmental activities expenses. Recreation and cultural expenditures accounted for 11% of governmental activities expenditures while general government, highways and streets, public works, and interest on long-term debt made up the remaining 51% of governmental activities expenditures.

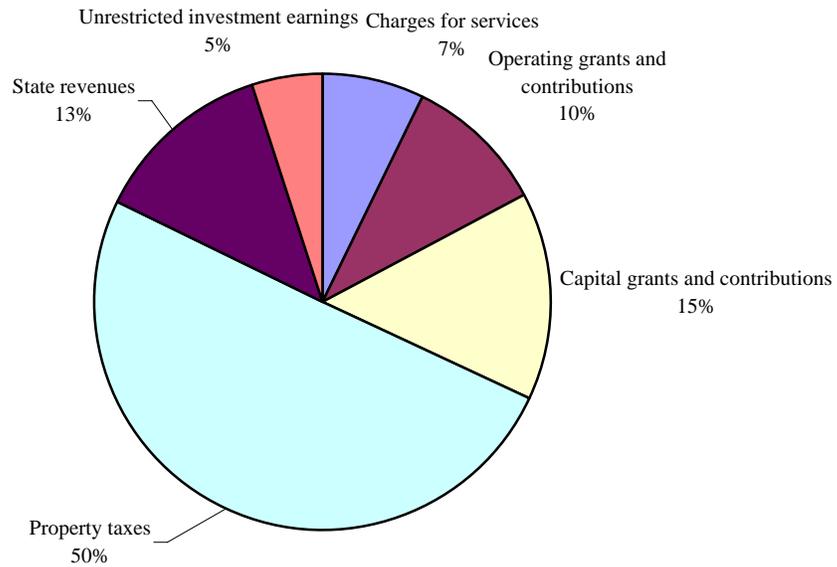
Expenditures in the statement of activities were comparable to those of the prior year with the exception of the public works function. The decrease of \$211,365 in public works expenditures was due to the completion of infrastructure projects that were capitalized in the statement of net assets and are being depreciated over the estimated lives of the improvements.

The increase in property tax revenue was due to an increase in taxable value of city property and also due to the expiration of the old DDA finance plan which did not allow it to capture any taxes in the current year.

**Expenses and Program Revenues - Governmental Activities**



**Revenues by Source - Governmental Activities**



## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,446,305, a decrease of \$82,435 in comparison with the prior year. Approximately 97 percent, or \$1,396,175 of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to specific funds.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$243,418, while total fund balance was \$267,698. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 14 percent of total general fund expenditures, a decrease from 32 percent in the prior year. This is due to the purchase of property out of the general fund. This percentage is expected to increase in 2007-2008 when the City issues Capital Improvement Bonds.

The fund balance of the City's general fund decreased by \$227,531 during the current fiscal year. This decrease was primarily due to the purchase of land at 139 Main Street and 58 Main Street.

The fund balance of the other capital projects fund decreased \$202,455 due to completion of the East Muskegon and Pine Street Phase I infrastructure projects.

The City created a new fund in 2007 for the accumulation of donations earmarked for the construction of a new library building. Ending fund balance totaled \$324,208 which was primarily the result of a \$300,000 donation from a city resident.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$617,198 and \$396,225, respectively. The sewer fund had an increase in net assets for the year of \$33,315, whereas the water fund had an increase of \$12,426.

### General Fund Budgetary Highlights

Differences between the original and final amended budgets and between final amended budgets and actual expenditures were relatively minor for the year.

## Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounted to \$12,537,478 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and infrastructure. Capital assets for the City's governmental activities increased 21%. Capital assets in the business-type activities decreased 2% in the current year.

Major capital asset events during the current fiscal year included the following:

- Land at 139 Main Street and 58 Main Street
- Completion of the East Muskegon and Pine Street Phase I infrastructure projects
- Construction in progress was recorded for engineering fees related to future projects at Northland Drive, the library, and Pine Street Phases II and III.

### Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 445,513	\$ 319,443	\$ 587,634	\$ 587,634	\$ 1,033,147	\$ 907,077
Construction in progress	69,999	327,825	-	-	69,999	327,825
Infrastructure	2,805,142	2,187,267	-	-	2,805,142	2,187,267
Buildings and system improvements	230,623	75,580	8,117,468	8,262,610	8,348,091	8,338,190
Vehicles and equipment	281,099	261,911	-	-	281,099	261,911
<b>Total</b>	<b>\$3,832,376</b>	<b>\$3,172,026</b>	<b>\$8,705,102</b>	<b>\$8,850,244</b>	<b>\$12,537,478</b>	<b>\$12,022,270</b>

Additional information on the City of Cedar Springs capital assets can be found in Note 4 on pages 30 and 31 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$6,367,352. Of this amount, \$3,881,000 was debt of business-type activities and \$2,486,352 was debt of governmental activities.

### General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Accrued employee benefits	\$ 24,514	\$ 27,268	\$ -	\$ -	\$ 24,514	\$ 27,268
Notes	226,838	149,308	-	-	226,838	149,308
Bonds	2,235,000	2,180,000	3,881,000	3,957,000	6,116,000	6,137,000
<b>Total</b>	<b>\$2,486,352</b>	<b>\$2,356,576</b>	<b>\$3,881,000</b>	<b>\$3,957,000</b>	<b>\$6,367,352</b>	<b>\$6,313,576</b>

The City's total debt increased by less than 1% during the current fiscal year.

The City is currently not rated for general obligation bond issuance.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$7,153,297, which is considerably in excess of the City's outstanding general obligation debt of \$2,235,000.

Additional information on the City's long-term debt can be found in Note 6 on pages 32-34 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2007-08 fiscal year:

- Increased non-union employee wages cost of 3%.
- Increased health insurance cost of 16%.
- Increase in property tax revenue of 3%
- Decrease of approximately \$16,000 in state revenue sharing programs.
- Capital outlay consisting of the Northland Drive Pathway project at \$50,400 and Pine Street Construction at \$236,650.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 66 South Main Street, Cedar Springs, Michigan, 49319.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF CEDAR SPRINGS**  
**Statement of Net Assets**  
**June 30, 2007**

	Primary Government			Component Units	
	Governmental	Business-type	Total	Downtown	Local
	Activities	Activities		Development	Development
	Activities	Activities	Total	Authority	Finance
				Authority	Authority
<b>Assets</b>					
Cash and cash equivalents	\$ 1,830,970	\$ 643,311	\$ 2,474,281	\$ 92,998	\$ 241,768
Accounts receivable	6,558	133,237	139,795	108	167
Special assessments receivable	71,936	-	71,936	-	-
Due from other governmental units	74,281	-	74,281	-	-
Internal balances	(170,000)	170,000	-	-	-
Prepaid items	11,659	3,837	15,496	-	-
Restricted cash and cash equivalents	-	308,343	308,343	-	-
Capital assets not being depreciated	515,512	587,634	1,103,146	35,901	-
Capital assets being depreciated, net	3,316,864	8,117,468	11,434,332	-	-
<b>Total assets</b>	<b>5,657,780</b>	<b>9,963,830</b>	<b>15,621,610</b>	<b>129,007</b>	<b>241,935</b>
<b>Liabilities</b>					
Accounts payable and accrued expenses	56,728	18,962	75,690	128	-
Accrued interest	29,004	58,865	87,869	-	-
Noncurrent liabilities:					
Compensated absences, all current	24,514	-	24,514	-	-
Bonds payable, due within one year	102,146	82,000	184,146	-	-
Bonds payable, due in more than one year	2,359,692	3,799,000	6,158,692	-	-
<b>Total liabilities</b>	<b>2,572,084</b>	<b>3,958,827</b>	<b>6,530,911</b>	<b>128</b>	<b>-</b>
<b>Net assets</b>					
Invested in capital assets, net of related debt	1,370,538	4,824,102	6,194,640	35,901	-
Restricted for:					
Public works programs	92,582	-	92,582	-	-
Highways and streets programs	362,710	-	362,710	-	-
Recreation and cultural programs	64,785	-	64,785	-	-
Cleo Cowles Memorial Trust	13,725	-	13,725	-	-
Debt service	2,806	167,478	170,284	-	-
Capital improvements	526,121	-	526,121	-	-
Perpetual care:					
Nonexpendable	10,000	-	10,000	-	-
Expendable	148,810	-	148,810	-	-
Unrestricted	493,619	1,013,423	1,507,042	92,978	241,935
<b>Total net assets</b>	<b>\$ 3,085,696</b>	<b>\$ 6,005,003</b>	<b>\$ 9,090,699</b>	<b>\$ 128,879</b>	<b>\$ 241,935</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 650,866	\$ 82,287	\$ 2,400	\$ -	\$ (566,179)
Public safety	742,126	27,656	726	8,940	(704,804)
Public works	58,594	36,143	-	19,574	(2,877)
Highways and streets	183,078	-	191,616	-	8,538
Recreation and cultural	221,529	29,114	49,169	328,386	185,140
Interest expense	101,054	-	-	-	(101,054)
Total governmental activities	<u>1,957,247</u>	<u>175,200</u>	<u>243,911</u>	<u>356,900</u>	<u>(1,181,236)</u>
Business-type activities:					
Sewer	692,342	694,064	-	-	1,722
Water	344,376	341,126	-	-	(3,250)
Total business-type activities	<u>1,036,718</u>	<u>1,035,190</u>	<u>-</u>	<u>-</u>	<u>(1,528)</u>
Total primary government	<u>\$ 2,993,965</u>	<u>\$ 1,210,390</u>	<u>\$ 243,911</u>	<u>\$ 356,900</u>	<u>\$ (1,182,764)</u>
<b>Component units</b>					
Downtown Development Authority	\$ 10,737	\$ 310	\$ -	\$ -	\$ (10,427)
Local Development Finance Authority	37,249	-	-	-	(37,249)
Total component units	<u>\$ 47,986</u>	<u>\$ 310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (47,676)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Statement of Activities (Concluded)**  
**For the Year Ended June 30, 2007**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Finance Development Authority
	<b>Changes in net assets</b>				
Net (expense) revenue	\$ (1,181,236)	\$ (1,528)	\$ (1,182,764)	\$ (10,427)	\$ (37,249)
General revenues:					
Property taxes	1,215,039	-	1,215,039	-	36,734
State revenues	305,205	-	305,205	-	-
Unrestricted investment earnings	123,101	48,469	171,570	4,454	12,849
Transfers - internal activities	1,200	(1,200)	-	-	-
Total general revenues and transfers	<u>1,644,545</u>	<u>47,269</u>	<u>1,691,814</u>	<u>4,454</u>	<u>49,583</u>
Change in net assets	463,309	45,741	509,050	(5,973)	12,334
Net assets, beginning of year	<u>2,622,387</u>	<u>5,959,262</u>	<u>8,581,649</u>	<u>134,852</u>	<u>229,601</u>
<b>Net assets, end of year</b>	<u><u>\$ 3,085,696</u></u>	<u><u>\$ 6,005,003</u></u>	<u><u>\$ 9,090,699</u></u>	<u><u>\$ 128,879</u></u>	<u><u>\$ 241,935</u></u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	<u>General</u>	<u>Other Capital Projects</u>	<u>New Library Facility Gift Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 406,713	\$ 12,844	\$ 324,205	\$ 836,080	\$ 1,579,842
Receivables:					
Accounts	5,767	60	3	572	6,402
Special assessments	-	-	-	71,936	71,936
Due from other funds	2,420	-	-	-	2,420
Due from other governmental units	55,663	-	-	18,618	74,281
Prepaid items	9,280	-	-	2,125	11,405
<b>Total assets</b>	<u>\$ 479,843</u>	<u>\$ 12,904</u>	<u>\$ 324,208</u>	<u>\$ 929,331</u>	<u>\$ 1,746,286</u>
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 42,145	\$ -	\$ -	\$ 13,480	\$ 55,625
Due to other funds	170,000	-	-	2,420	172,420
Deferred revenue	-	-	-	71,936	71,936
Total liabilities	<u>212,145</u>	<u>-</u>	<u>-</u>	<u>87,836</u>	<u>299,981</u>
<b>Fund balances</b>					
Fund balance:					
Reserved for prepaid items	9,280	-	-	2,125	11,405
Reserved for Christmas trees	15,000	-	-	-	15,000
Reserved for Cleo Cowles Memorial Trust	-	-	-	13,725	13,725
Reserved for nonexpendable portion of permanent fund	-	-	-	10,000	10,000
Unreserved, undesignated, reported in nonmajor:					
Special revenue funds	-	-	-	446,016	446,016
Debt service fund	-	-	-	31,810	31,810
Capital projects funds	-	-	-	189,009	189,009
Permanent fund	-	-	-	148,810	148,810
Unreserved - undesignated	243,418	12,904	324,208	-	580,530
Total fund balances	<u>267,698</u>	<u>12,904</u>	<u>324,208</u>	<u>841,495</u>	<u>1,446,305</u>
<b>Total liabilities and fund balances</b>	<u>\$ 479,843</u>	<u>\$ 12,904</u>	<u>\$ 324,208</u>	<u>\$ 929,331</u>	<u>\$ 1,746,286</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Reconciliation of the Fund Balances on the Balance Sheet**  
**For Governmental Funds to the Net Assets of Governmental**  
**Activities on the Statement of Net Assets**  
**June 30, 2007**

---

Fund balances- total governmental funds \$ 1,446,305

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the funds.

Add- capital assets not being depreciated	515,512
Add- capital assets being depreciated, net	3,213,867

Certain liabilities, such as bond payable, are not due and payable in the  
current period and therefore are not reported in the funds.

Deduct- bonds payable	(2,461,838)
Deduct- accrued interest	(29,004)
Deduct- compensated absences	(24,514)

Internal service funds are used by management to charge the costs of certain activities, such  
as insurance and other centralized costs, to individual funds. The assets and liabilities of the  
internal service fund are included in governmental activities.

Add- internal service fund net assets	353,432
---------------------------------------	---------

Certain assets, such as special assessments receivable, are not due and receivable in the  
current period and therefore are offset with deferred revenue in the fund statements.

Add- deferred revenue for special assessments	71,936
---	--------

Net assets of governmental activities	<u><u>\$ 3,085,696</u></u>
---------------------------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

	<u>General</u>	<u>Other Capital Projects</u>	<u>New Library Facility Gift Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 1,126,168	\$ -	\$ -	\$ 88,871	\$ 1,215,039
Special assessments	-	-	-	48,684	48,684
Licenses and permits	21,630	-	-	-	21,630
Intergovernmental revenue:					
Federal	8,940	-	-	-	8,940
State	299,048	-	-	197,773	496,821
Local	-	-	305,691	44,784	350,475
Charges for services	85,478	-	-	8,375	93,853
Fines and forfeitures	14,777	-	-	14,337	29,114
Interest	60,612	1,960	8,705	41,559	112,836
Rentals	9,000	-	-	-	9,000
Other	31,437	-	-	28,747	60,184
	<u>1,657,090</u>	<u>1,960</u>	<u>314,396</u>	<u>473,130</u>	<u>2,446,576</u>
<b>Expenditures</b>					
Current:					
Legislative	13,629	-	-	-	13,629
General government	459,246	-	-	-	459,246
Public safety	800,131	-	-	-	800,131
Public works	49,960	350,274	-	94,241	494,475
Highways and streets	-	-	-	185,449	185,449
Recreation and cultural	87,239	-	-	144,744	231,983
Other expenditures	38,389	-	-	-	38,389
Debt service:					
Principal	3,308	-	-	87,162	90,470
Interest and fiscal charges	54	-	-	96,947	97,001
Capital outlay	342,438	-	-	-	342,438
	<u>1,794,394</u>	<u>350,274</u>	<u>-</u>	<u>608,543</u>	<u>2,753,211</u>
Revenues over (under) expenditures	<u>(137,304)</u>	<u>(348,314)</u>	<u>314,396</u>	<u>(135,413)</u>	<u>(306,635)</u>
<b>Other financing sources (uses)</b>					
Transfers in	10,000	145,859	9,812	392,768	558,439
Transfers (out)	(188,227)	-	-	(369,012)	(557,239)
Proceeds from issuance of long-term debt	88,000	-	-	135,000	223,000
	<u>(90,227)</u>	<u>145,859</u>	<u>9,812</u>	<u>158,756</u>	<u>224,200</u>
Net change in fund balances	(227,531)	(202,455)	324,208	23,343	(82,435)
Fund balances, beginning of year	<u>495,229</u>	<u>215,359</u>	<u>-</u>	<u>818,152</u>	<u>1,528,740</u>
<b>Fund balances, end of year</b>	<u>\$ 267,698</u>	<u>\$ 12,904</u>	<u>\$ 324,208</u>	<u>\$ 841,495</u>	<u>\$ 1,446,305</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended June 30, 2007**

---

Net change in fund balances - total governmental funds \$ (82,435)

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	777,939
Deduct - depreciation expense	(101,472)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - proceeds from issuance of long-term debt	(223,000)
Add - principal payments on long-term debt	90,470

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Add - net income from internal service fund	32,216
---	--------

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - decrease in special assessments	(29,110)
--	----------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in accrued interest	(4,053)
Add - decrease in the accrual for compensated absences	2,754

Change in net assets of governmental activities	\$ 463,309
---	------------

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2007**

	General Fund			Variance With Final Budget
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Taxes	\$ 1,121,108	\$ 1,121,108	\$ 1,126,168	\$ 5,060
Licenses and permits	25,000	25,000	21,630	(3,370)
Intergovernmental revenue:				
Federal	-	8,940	8,940	-
State	308,500	308,500	299,048	(9,452)
Charges for services	83,800	87,800	85,478	(2,322)
Fines and forfeitures	10,000	10,000	14,777	4,777
Interest	45,000	57,500	60,612	3,112
Rentals	9,000	9,000	9,000	-
Other	18,300	29,025	31,437	2,412
<b>Total revenues</b>	<u>1,620,708</u>	<u>1,656,873</u>	<u>1,657,090</u>	<u>217</u>
<b>Expenditures</b>				
Current:				
Legislative	14,800	14,800	13,629	(1,171)
General government	478,655	530,255	459,246	(71,009)
Public safety	843,490	873,190	800,131	(73,059)
Public works	82,600	59,300	49,960	(9,340)
Recreation and cultural	55,500	86,000	87,239	1,239
Other expenditures	36,900	44,900	38,389	(6,511)
Debt service:				
Principal	3,306	3,306	3,308	2
Interest and fiscal charges	54	54	54	-
Capital outlay	25,000	230,000	342,438	112,438
<b>Total expenditures</b>	<u>1,540,305</u>	<u>1,841,805</u>	<u>1,794,394</u>	<u>(47,411)</u>
Revenues over (under) expenditures	80,403	(184,932)	(137,304)	47,628
<b>Other financing sources (uses)</b>				
Transfers in	-	180,000	10,000	(170,000)
Transfers (out)	(184,900)	(168,639)	(188,227)	(19,588)
Proceeds from issuance of long-term debt	-	-	88,000	88,000
<b>Total other financing sources (uses)</b>	<u>(184,900)</u>	<u>11,361</u>	<u>(90,227)</u>	<u>(101,588)</u>
Net change in fund balance	(104,497)	(173,571)	(227,531)	(53,960)
Fund balance, beginning of year	495,229	495,229	495,229	-
<b>Fund balance, end of year</b>	<u>\$ 390,732</u>	<u>\$ 321,658</u>	<u>\$ 267,698</u>	<u>\$ (53,960)</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2007**

	<b>Business-type Activities</b>			<b>Governmental</b>
	<b>Enterprise Funds</b>			<b>Activities</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Internal Service Fund</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 317,098	\$ 326,213	\$ 643,311	\$ 251,128
Accounts receivable	85,340	47,897	133,237	156
Due from other funds	170,000	-	170,000	-
Prepaid items	1,635	2,202	3,837	254
Total current assets	<u>574,073</u>	<u>376,312</u>	<u>950,385</u>	<u>251,538</u>
Noncurrent assets:				
Restricted cash and cash equivalents	248,343	60,000	308,343	-
Capital assets not being depreciated	587,634	-	587,634	-
Capital assets being depreciated, net	7,324,538	792,930	8,117,468	102,997
Total noncurrent assets	<u>8,160,515</u>	<u>852,930</u>	<u>9,013,445</u>	<u>102,997</u>
Total assets	<u>8,734,588</u>	<u>1,229,242</u>	<u>9,963,830</u>	<u>354,535</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued expenses	8,875	10,087	18,962	1,103
Accrued interest	48,465	10,400	58,865	-
Current maturity of bonds payable	52,000	30,000	82,000	-
Total current liabilities	<u>109,340</u>	<u>50,487</u>	<u>159,827</u>	<u>1,103</u>
Long-term liabilities:				
Long-term debt, net of current portion	3,179,000	620,000	3,799,000	-
Total liabilities	<u>3,288,340</u>	<u>670,487</u>	<u>3,958,827</u>	<u>1,103</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	4,681,172	142,930	4,824,102	102,997
Restricted for debt service	147,878	19,600	167,478	-
Unrestricted	617,198	396,225	1,013,423	250,435
Total net assets	<u>\$ 5,446,248</u>	<u>\$ 558,755</u>	<u>\$ 6,005,003</u>	<u>\$ 353,432</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Proprietary Funds**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2007**

	<u>Business-type Activities</u>			<u>Governmental</u>
	<u>Enterprise Funds</u>			<u>Activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>
<b>Operating revenues</b>				
Charges for services	\$ 694,064	\$ 341,126	\$ 1,035,190	\$ 141,706
<b>Operating expenses</b>				
Personnel services	80,350	105,717	186,067	26,830
Benefits	22,557	43,287	65,844	12,611
Professional and contractual services	150,595	59,838	210,433	715
Materials and supplies	3,914	24,185	28,099	12,768
Telephone	3,826	-	3,826	-
Utilities	89,163	15,607	104,770	173
Insurance and bonds	9,738	2,072	11,810	4,102
Repairs and maintenance	50,648	7,727	58,375	17,153
Rent	-	3,000	3,000	5,000
Equipment rental	6,788	21,148	27,936	-
Depreciation	124,637	28,005	152,642	39,872
Miscellaneous	3,201	2,115	5,316	531
Total operating expenses	<u>545,417</u>	<u>312,701</u>	<u>858,118</u>	<u>119,755</u>
Operating income	<u>148,647</u>	<u>28,425</u>	<u>177,072</u>	<u>21,951</u>
<b>Nonoperating revenues (expenses)</b>				
Interest income	31,593	16,876	48,469	10,265
Interest expense	(146,925)	(31,675)	(178,600)	-
Total nonoperating revenues (expenses)	<u>(115,332)</u>	<u>(14,799)</u>	<u>(130,131)</u>	<u>10,265</u>
Income before transfers	33,315	13,626	46,941	32,216
<b>Transfers</b>				
Transfers (out)	<u>-</u>	<u>(1,200)</u>	<u>(1,200)</u>	<u>-</u>
Change in net assets	33,315	12,426	45,741	32,216
Net assets, beginning of year	<u>5,412,933</u>	<u>546,329</u>	<u>5,959,262</u>	<u>321,216</u>
<b>Net assets, end of year</b>	<u><u>\$ 5,446,248</u></u>	<u><u>\$ 558,755</u></u>	<u><u>\$ 6,005,003</u></u>	<u><u>\$ 353,432</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2007**

	<u>Business-type Activities</u>			<u>Governmental</u>
	<u>Enterprise Funds</u>			<u>Activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal</u> <u>Service</u> <u>Fund</u>
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 741,567	\$ 354,913	\$ 1,096,480	\$ -
Internal charges and advances	(170,000)	-	(170,000)	141,706
Cash payments to suppliers for goods and services	(341,145)	(176,923)	(518,068)	(53,470)
Cash payments to employees for services	(80,350)	(105,717)	(186,067)	(26,830)
Net cash provided by operating activities	<u>150,072</u>	<u>72,273</u>	<u>222,345</u>	<u>61,406</u>
<b>Cash flows from non-capital financing activities</b>				
Transfers out	-	(1,200)	(1,200)	-
<b>Cash flows from capital and related financing activities</b>				
Purchase of property, plant and equipment	-	(7,500)	(7,500)	(23,755)
Principal paid on long-term debt	(51,000)	(25,000)	(76,000)	-
Interest and fiscal charges	(146,925)	(31,675)	(178,600)	-
Net cash used in capital and related financing activities	<u>(197,925)</u>	<u>(64,175)</u>	<u>(262,100)</u>	<u>(23,755)</u>
<b>Cash flows from investing activities</b>				
Interest income	31,593	16,876	48,469	10,265
Cash and cash equivalents, beginning of year	581,701	362,439	944,140	203,212
<b>Cash and cash equivalents, end of year</b>	<u>\$ 565,441</u>	<u>\$ 386,213</u>	<u>\$ 951,654</u>	<u>\$ 251,128</u>
<b>Cash flows from operating activities</b>				
Operating income	\$ 148,647	\$ 28,425	\$ 177,072	\$ 21,951
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	124,637	28,005	152,642	39,872
Changes in operating assets and liabilities which provided (used) cash:				
Accounts receivable	47,503	13,787	61,290	(156)
Due from other funds	(170,000)	-	(170,000)	-
Prepaid items	(231)	585	354	324
Accounts payable and accrued expenses	281	1,871	2,152	(585)
Accrued interest	(765)	(400)	(1,165)	-
<b>Net cash provided by operating activities</b>	<u>\$ 150,072</u>	<u>\$ 72,273</u>	<u>\$ 222,345</u>	<u>\$ 61,406</u>
<b>Reconciliation to the Statement of Net Assets</b>				
Cash and cash equivalents	\$ 317,098	\$ 326,213	\$ 643,311	\$ 251,128
Restricted cash and cash equivalents	248,343	60,000	308,343	-
	<u>\$ 565,441</u>	<u>\$ 386,213</u>	<u>\$ 951,654</u>	<u>\$ 251,128</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF CEDAR SPRINGS**  
**Agency Fund**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2007**

---

**Assets**

Cash and cash equivalents	\$ 316
Due from other governments	<u>3,109</u>
Total assets	<u><u>\$ 3,425</u></u>

**Liabilities**

Accounts payable	<u><u>\$ 3,425</u></u>
------------------	------------------------

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Cedar Springs (the “City”) was incorporated June 30, 1954 under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles. The following is a summary of the more significant policies.

***The Reporting Entity***

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

***Discretely Presented Component Units***

Downtown Development Authority – The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Local Development Finance Authority – The members of the governing board of the Local Development Finance Authority are appointed by the City Council. The budgets and expenditures of the Local Development Finance Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Local Development Finance Authority.

***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

---

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the City to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Other Capital Projects Fund* is used to account for the financial resources and activities relating to construction projects not being accounted for in a specific capital projects fund.

The *New Library Facility Gift Fund* is used to account for donations received for the future construction of a new library building.

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

---

The City reports the following major proprietary funds:

*Sewer Fund* – This fund is used to account for the cost of collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

*Water Fund* – The cost of providing water services to City residents is accounted for by this fund. Revenues are primarily from charges to customers for water usage. These revenues are used to pay operating costs and principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

Additionally, the City reports the following fund types:

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal, interest, and related costs on long-term debt of governmental funds. The City maintains one Debt Service Fund.

The *Capital Projects Funds* are used to account for the financial resources and activities relating to specific construction projects.

The *Permanent Fund* is used to record the activity of legal trusts for which the interest on the corpus provides funds for City cemetery operations.

The *Internal Service Fund* is used to record the financing of goods or services by the City to other departments and funds or to other governmental units on a cost reimbursement basis. The City maintains one Internal Service Fund which is the Motor Vehicle Equipment Fund.

The *Agency Fund* is used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

---

***Budgets and Budgetary Accounting***

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Agency Funds.
5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2007. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less to be cash and temporary investments.

***Investments***

Investments are stated at fair value.

***Receivables***

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

***Deferred Revenue***

The City reports deferred revenue when cash receipts do not meet both the “measurable” and “available” criteria for recognition in the current period.

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

---

***Prepaid Items***

The City incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the City records an asset to reflect the investment in future services.

***Restricted Assets***

Certain resources set aside for the repayment of the City's enterprise fund revenue bonds, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added since 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) of the primary government is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	25
Buildings	25-30
Office furniture and equipment	5-20
Vehicles	3-10
Public domain infrastructure	50
System infrastructure	30

***Long-term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

---

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Property Taxes***

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before September 14. These summer tax bills include the City's own property taxes and taxes billed on behalf of other districts within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

***Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

***Compensated Absences***

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Vacation leave earned as of June 30, 2007, is recorded in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

***Special Assessments***

Special assessments in governmental funds are recorded as revenues when due, not when levied. Estimated annual installments not yet available are reflected as deferred revenue.

***Interfund Transactions***

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies, advances, or equity contributions are determined by the City.

***Risk Management***

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

**2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

During the year ended June 30, 2007, expenditures were incurred in excess of the amounts appropriated in the amended budget of the general fund and special revenue fund types of the primary government as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Recreation and cultural	\$ 86,000	\$ 87,239	\$ (1,239)
Capital outlay	230,000	342,438	(112,438)
Transfers out	168,639	188,227	(19,588)
Major Street Fund:			
Transfers out	33,785	57,781	(23,996)

**3. DEPOSITS**

The captions on the government-wide and fund statements relating to cash and cash equivalents are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Agency Fund</u>	<u>Total</u>
Cash and cash equivalents	\$2,474,281	\$334,766	\$ 316	\$2,809,363
Restricted cash and cash equivalents	308,343	-	-	308,343
	<u>\$2,782,624</u>	<u>\$334,766</u>	<u>\$ 316</u>	<u>\$3,117,706</u>

Deposits consist of the following at June 30, 2007:

Checking and savings accounts	\$ 376,933
Certificates of deposits	<u>2,740,773</u>
<b>Total</b>	<b><u>\$3,117,706</u></b>

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end, \$3,035,545 of the City's bank balance of \$3,235,645 was exposed to custodial credit risk because it was uninsured and uncollateralized.

These deposits are in two (2) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. Deposits are recorded in City records at fair value.

The City does not hold any investments at June 30, 2007.

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

**Statutory Authority**

Act 217, PA 1982, authorizes the City to deposit and invest in:

- a. Bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

**4. CAPITAL ASSETS**

Changes in capital assets for the year ending June 30, 2007, are as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2007</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 319,443	\$ 126,070	\$ -	\$ 445,513
Construction in progress	327,825	69,999	(327,825)	69,999
Total capital assets, not being depreciated	<u>647,268</u>	<u>196,069</u>	<u>(327,825)</u>	<u>515,512</u>
Capital assets, being depreciated:				
Infrastructure	2,352,491	678,100	-	3,030,591
Buildings and improvements	400,786	162,892	-	563,678
Vehicles and equipment	994,317	92,458	(39,985)	1,046,790
Total capital assets being depreciated	<u>3,747,594</u>	<u>933,450</u>	<u>(39,985)</u>	<u>4,641,059</u>
Less accumulated depreciation for:				
Infrastructure	165,224	60,225	-	225,449
Buildings	325,206	7,849	-	333,055
Vehicles and equipment	732,406	73,270	(39,985)	765,691
Total accumulated depreciation	<u>1,222,836</u>	<u>141,344</u>	<u>(39,985)</u>	<u>1,324,195</u>
Net capital assets, being depreciated	<u>2,524,758</u>	<u>792,106</u>	<u>-</u>	<u>3,316,864</u>
<b>Net governmental activities capital assets</b>	<u><b>\$3,172,026</b></u>	<u><b>\$ 988,175</b></u>	<u><b>\$ (327,825)</b></u>	<u><b>\$ 3,832,376</b></u>

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

	<b>Balance July 1, 2006</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2007</b>
<b>Business-type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 587,634	\$ -	\$ -	\$ 587,634
Capital assets being depreciated:				
Water system	1,276,689	7,500	-	1,284,189
Sewer system	8,704,138	-	-	8,704,138
Total capital assets being depreciated	9,980,827	7,500	-	9,988,327
Less accumulated depreciation for:				
Water system	(463,256)	(28,005)		(491,261)
Sewer system	(1,254,961)	(124,637)	-	(1,379,598)
Total accumulated depreciation	(1,718,217)	(152,642)	-	(1,870,859)
Net capital assets, being depreciated	<b>8,262,610</b>	<b>(145,142)</b>	-	<b>8,117,468</b>
<b>Net business-type activities capital assets</b>	<b><u>\$8,850,244</u></b>	<b><u>\$(145,142)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 8,705,102</u></b>
<b>Downtown Development Authority Component unit</b>				
Land	\$ 35,901	\$ -	\$ -	\$ 35,901

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 10,651
Public safety	22,550
Public works	64,297
Recreation and cultural	3,974
Internal service fund assets	39,872
Total depreciation expense – governmental activities	<u>\$141,344</u>
<b>Business-type activities:</b>	
Sewer	\$124,637
Water	28,005
Total depreciation expense – business-type activities	<u>\$152,642</u>

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

**5. INTERFUND PAYABLES, RECEIVABLES, AND TRANSFERS**

Interfund receivables/payables consist of the following at year-end:

	<b>Due to</b>	<b>Due from</b>
<b>Governmental activities:</b>		
General fund	\$170,000	\$ 2,420
Nonmajor governmental funds	2,420	-
<b>Business-type activities:</b>		
Sewer fund	-	170,000
	<b>\$172,420</b>	<b>\$172,420</b>

This interfund transaction between the general fund and the sewer fund was made for the purpose of financing a land purchase and is expected to be repaid within one year.

The composition of transfers for the year ended June 30, 2007, is as follows:

	<b>Transfers In</b>	<b>Transfers Out</b>
<b>Governmental activities:</b>		
General fund	\$ 10,000	\$188,227
Other capital projects	145,859	-
New library facility gift fund	9,812	-
Nonmajor governmental funds	392,768	369,012
<b>Business-type activities:</b>		
Water	-	1,200
<b>Total</b>	<b>\$558,439</b>	<b>\$558,439</b>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund and other funds to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

**6. LONG-TERM DEBT**

The following is a summary of debt transactions of the City for the year ended June 30, 2007:

	<b>Balance July 1, 2006</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2007</b>	<b>Due Within One Year</b>
<b>Governmental activities</b>					
General Obligation Debt:					
\$460,000 Special Assessment Bonds and \$325,000 General Obligation Limited Tax Street Improvement Bonds, Series 1997. Bonds due in annual installments of \$20,000 to \$45,000 through October 1, 2011 due to redemption; interest at 5.0-7.0%.	\$ 225,000	\$ -	\$35,000	\$ 190,000	\$35,000

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
<b>Governmental activities (continued)</b>					
\$1,985,000 General Obligation Improvement Bonds, Series 2003. Bonds due in annual installments of \$5,000 to \$210,000 through April 1, 2023; interest at 2.0 – 4.4%.	\$ 1,955,000	\$ -	\$ 45,000	\$1,910,000	\$ 50,000
\$135,000 Michigan Transportation Fund Bonds, Series 2006. Bonds due in annual installments of \$5,000 to \$24,000 through October 1, 2016; interest at 4.1 – 4.3%.	-	135,000	-	135,000	5,000
\$25,000 Installment Purchase Agreement due in annual installments of \$2,951 to \$8,853 through August 26, 2006; interest at 4.80%.	3,308	-	3,308	-	-
\$146,000 Installment Purchase Agreement due in annual installments of \$13,353 through December 14, 2020; interest at 4.42%.	146,000	-	7,162	138,838	7,466
\$88,000 Installment Purchase Agreement due in annual installments of \$8,552 through September 1, 2020; interest at 4.40%.	-	88,000	-	88,000	4,680
<b>Total installment debt</b>	<b>2,239,308</b>	<b>223,000</b>	<b>90,470</b>	<b>2,461,838</b>	<b>102,146</b>
Compensated absences	27,268	46,178	48,932	24,514	24,514
<b>Total governmental activities</b>	<b>\$ 2,356,576</b>	<b>\$ 269,178</b>	<b>\$139,402</b>	<b>\$2,486,352</b>	<b>\$126,660</b>

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due One Year</u>
<b>Business-type activities</b>					
\$3,000,000 Sanitary Sewer System Construction Revenue Bonds, Series 1996A. Bonds due in annual installments of \$28,000 to \$158,000 through March 1, 2037 interest at 4.50%.	\$2,699,000	\$ -	\$42,000	\$2,657,000	\$43,000
\$650,000 Sanitary Sewer System Revenue Bonds, Series 1996B. Bonds due in annual installments of \$6,000 to \$33,000 through March 1, 2037; interest at 4.50%.	583,000	-	9,000	574,000	9,000
\$750,000 Water Supply System Revenue Bonds, Series 2002. Bonds due in annual installments of \$25,000 to \$60,000 through September 1, 2022; interest at 4.50 – 4.80%.	675,000	-	25,000	650,000	30,000
<b>Total business-type activities</b>	<b><u>\$3,957,000</u></b>	<b><u>\$ -</u></b>	<b><u>\$76,000</u></b>	<b><u>\$3,881,000</u></b>	<b><u>\$82,000</u></b>

The annual requirements, excluding compensated absences, to maturity on the total long-term obligations outstanding at June 30, 2007 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 102,146	\$100,845	\$ 82,000	\$ 176,596
2009	117,669	96,867	86,000	172,816
2010	128,214	92,217	87,000	168,856
2011	133,783	87,081	91,000	164,850
2012	119,375	81,653	98,000	160,666
2013-2017	736,702	330,971	551,000	732,182
2018-2022	913,949	167,560	695,000	592,910
2023-2027	210,000	9,240	620,000	434,212
2028-2032	-	-	699,000	293,268
2033-2037	-	-	872,000	121,236
	<b><u>\$2,461,838</u></b>	<b><u>\$966,434</u></b>	<b><u>\$3,881,000</u></b>	<b><u>\$ 3,017,592</u></b>

For the governmental activities, compensated absences are generally liquidated by the general fund.

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

**7. DEFINED BENEFIT PENSION PLAN**

*Municipal Employees Retirement System of Michigan*

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate which ranges from 0% to 9.98% of annual covered payroll, depending on the bargaining unit; employees are required to contribute 5% of annual covered payroll. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2007 the City's annual pension cost for MERS of \$49,945 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

**Three-Year Trend Information**

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$29,797	100%	\$ -
2006	36,326	100%	-
2007	49,945	100%	-

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/04	\$1,769,929	\$1,956,449	\$186,520	90%	\$621,733	30%
12/31/05	1,846,914	2,203,755	356,841	84%	663,877	54%
12/31/06	1,970,967	2,391,398	420,431	82%	723,688	58%

**CITY OF CEDAR SPRINGS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2007**

---

**8. DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the plan are held in trust for employees and the related assets and liabilities are not included in this report.

**9. CLEO COWLES TRUST**

The Library benefits from a trust established by Cleo Cowles. The Library has no control over the principal of this trust and is entitled only to the income to be used for general operation of the Library Special Revenue Fund. This trust is administered by the City and has a principal balance of \$13,725 (at cost).

**10. COMMITMENTS AND CONTINGENCIES**

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

The City also has a pending gain contingency involving water and sewer receivables that were under-billed several years ago. The issue is still in the court system.

At June 30, 2007, the City had outstanding construction commitments in the amounts of \$66,800, \$160,000, and \$28,000 for the Pine Street Phase II, Pine Street Phase III, and Northland Drive / Main Street sidewalk and resurfacing projects, respectively.

**11. SUBSEQUENT EVENT**

After year-end, the City purchased land at a cost of \$225,000. The purchase was funded through a donation from a City resident.

In September 2007, the City issued bonds in the amount of \$700,000.

\* \* \* \* \*

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

## **GENERAL FUND**

**CITY OF CEDAR SPRINGS**  
**General Fund**  
**Detail Schedule of Expenditures and Other Financing Uses**  
**Budget and Actual**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Legislative - City Council</b>				
Salaries and wages	\$ 7,900	\$ 7,900	\$ 7,900	\$ -
Benefits	650	650	604	(46)
Conventions	5,000	5,000	2,237	(2,763)
Miscellaneous	1,250	1,250	2,888	1,638
	<u>14,800</u>	<u>14,800</u>	<u>13,629</u>	<u>(1,171)</u>
<b>General government</b>				
City manager:				
Salaries and wages	27,000	27,000	27,737	737
Benefits	8,600	9,200	9,035	(165)
Travel and conferences	7,175	4,425	767	(3,658)
Transportation	5,000	5,000	4,767	(233)
Miscellaneous	4,000	10,800	10,529	(271)
	<u>51,775</u>	<u>56,425</u>	<u>52,835</u>	<u>(3,590)</u>
Elections:				
Salaries and wages	1,500	1,500	985	(515)
Operating supplies	2,630	2,630	931	(1,699)
Professional services	700	700	510	(190)
Printing and publishing	300	300	221	(79)
	<u>5,130</u>	<u>5,130</u>	<u>2,647</u>	<u>(2,483)</u>
Independent audit/accounting:				
Auditing services	6,500	6,500	5,700	(800)
Assessor:				
Salaries and wages	15,500	12,000	11,692	(308)
Benefits	1,550	1,550	974	(576)
Operating supplies	1,000	1,500	1,484	(16)
	<u>18,050</u>	<u>15,050</u>	<u>14,150</u>	<u>(900)</u>
City attorney:				
Professional services	45,000	45,000	19,779	(25,221)

(Continued)

**CITY OF CEDAR SPRINGS**  
**General Fund**  
**Detail Schedule of Expenditures and Other Financing Uses**  
**Budget and Actual (Continued)**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>General government (continued)</b>				
Deputy clerk:				
Salaries and wages	\$ 40,650	\$ 40,650	\$ 38,461	\$ (2,189)
Benefits	9,950	10,700	9,903	(797)
Travel and conferences	800	800	332	(468)
Printing and publishing	11,200	12,700	8,127	(4,573)
Capital outlay	4,000	3,500	3,269	(231)
Miscellaneous	300	300	352	52
	<u>66,900</u>	<u>68,650</u>	<u>60,444</u>	<u>(8,206)</u>
Total deputy clerk				
Board of review:				
Salaries and wages	800	800	788	(12)
Miscellaneous	400	400	276	(124)
	<u>1,200</u>	<u>1,200</u>	<u>1,064</u>	<u>(136)</u>
Total board of review				
General administration:				
Salaries and wages	43,000	43,000	41,255	(1,745)
Benefits	14,450	15,150	14,502	(648)
Office supplies	18,000	18,000	17,456	(544)
Printing and publishing	1,800	1,800	1,497	(303)
Telephone	11,000	11,000	8,027	(2,973)
Travel and conferences	2,000	2,000	1,059	(941)
Insurance and bonds	37,000	37,000	36,518	(482)
Professional services	5,000	15,000	13,307	(1,693)
Miscellaneous	5,450	5,450	1,724	(3,726)
	<u>137,700</u>	<u>148,400</u>	<u>135,345</u>	<u>(13,055)</u>
Total general administration				
City hall and grounds:				
Salaries and wages	2,500	2,500	2,398	(102)
Benefits	1,800	1,800	1,053	(747)
Utilities	23,500	23,500	17,093	(6,407)
Repairs and maintenance	11,000	4,000	3,267	(733)
Equipment rental	100	100	285	185
Professional services	-	20,000	21,908	1,908
Capital outlay	5,000	12,000	11,367	(633)
Miscellaneous	12,200	12,200	10,111	(2,089)
	<u>56,100</u>	<u>76,100</u>	<u>67,482</u>	<u>(8,618)</u>
Total city hall and grounds				

(Continued)

**CITY OF CEDAR SPRINGS**  
**General Fund**  
**Detail Schedule of Expenditures and Other Financing Uses**  
**Budget and Actual (Continued)**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>General government (continued)</b>				
Cemetery:				
Salaries and wages	\$ 15,400	\$ 20,400	\$ 19,235	\$ (1,165)
Benefits	6,400	6,400	6,817	417
Operating supplies	1,000	1,000	355	(645)
Utilities	200	200	61	(139)
Professional expenses	4,500	4,500	3,892	(608)
Repairs and maintenance	500	500	79	(421)
Equipment rental	23,500	33,500	30,538	(2,962)
	<u>51,500</u>	<u>66,500</u>	<u>60,977</u>	<u>(5,523)</u>
Total cemetery				
Community promotion:				
Salaries and wages	4,000	6,000	7,453	1,453
Benefits	2,700	3,200	3,105	(95)
Professional services	3,500	3,500	1,126	(2,374)
Operating supplies	12,800	12,800	8,856	(3,944)
Equipment rental	4,000	4,000	6,697	2,697
Capital outlay	4,000	4,000	3,800	(200)
Miscellaneous	7,800	7,800	7,786	(14)
	<u>38,800</u>	<u>41,300</u>	<u>38,823</u>	<u>(2,477)</u>
Total community promotion				
Total general government				
	<u>478,655</u>	<u>530,255</u>	<u>459,246</u>	<u>(71,009)</u>
<b>Public safety</b>				
Police department:				
Salaries and wages	388,040	388,040	378,261	(9,779)
Benefits	106,900	119,900	115,878	(4,022)
Office supplies	1,000	1,000	305	(695)
Operating supplies	4,500	4,500	6,528	2,028
Clothing and laundry	4,500	4,500	3,624	(876)
Repairs and maintenance	17,500	17,500	11,144	(6,356)
Professional services	18,000	18,000	21,293	3,293
Telephone	1,500	1,700	844	(856)
Education and training	5,700	5,700	3,413	(2,287)
Radio and dispatch	48,300	48,300	44,184	(4,116)
Gasoline and oil	16,000	16,000	14,120	(1,880)
Capital outlay	36,800	44,300	35,330	(8,970)
Miscellaneous	3,600	3,600	5,984	2,384
	<u>652,340</u>	<u>673,040</u>	<u>640,908</u>	<u>(32,132)</u>
Total police department				

(Continued)

**CITY OF CEDAR SPRINGS**  
**General Fund**  
**Detail Schedule of Expenditures and Other Financing Uses**  
**Budget and Actual (Continued)**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Public safety (continued)</b>				
Fire department:				
Salaries and wages	\$ 57,975	\$ 57,975	\$ 53,100	\$ (4,875)
Benefits	4,250	4,250	4,137	(113)
Office supplies	1,800	1,800	1,832	32
Operating supplies	2,000	2,000	1,852	(148)
Clothing and laundry	2,000	2,000	1,719	(281)
Repairs and maintenance	4,700	4,700	5,537	837
Professional services	6,450	6,450	6,297	(153)
Telephone	1,300	1,300	1,452	152
Utilities	9,700	9,700	7,483	(2,217)
Education and training	2,200	2,200	1,258	(942)
Hydrant rental	10,000	10,000	10,000	-
Capital outlay	39,325	39,325	11,212	(28,113)
Miscellaneous	3,200	3,200	2,578	(622)
Total fire department	<u>144,900</u>	<u>144,900</u>	<u>108,457</u>	<u>(36,443)</u>
Building inspection:				
Salaries and wages	5,500	5,500	6,541	1,041
Benefits	3,000	3,000	3,428	428
Professional services	22,500	22,500	19,477	(3,023)
Total building inspection	<u>31,000</u>	<u>31,000</u>	<u>29,446</u>	<u>(1,554)</u>
Planning commission:				
Professional and contractual services	12,000	21,000	20,041	(959)
Printing and publishing	2,500	2,500	1,264	(1,236)
Miscellaneous	750	750	15	(735)
Total planning commission	<u>15,250</u>	<u>24,250</u>	<u>21,320</u>	<u>(2,930)</u>
Total public safety	<u>843,490</u>	<u>873,190</u>	<u>800,131</u>	<u>(73,059)</u>
<b>Public works</b>				
Street lighting:				
Electric	36,500	42,200	37,537	(4,663)
Other public works:				
Salaries and wages	6,000	6,000	5,147	(853)
Benefits	1,600	1,600	1,620	20
Professional services	4,000	4,000	1,664	(2,336)
Electric	1,000	1,000	762	(238)
Equipment rental	10,000	1,000	182	(818)
Capital outlay	20,000	-	-	-
Miscellaneous	3,500	3,500	3,048	(452)
Total other public works	<u>46,100</u>	<u>17,100</u>	<u>12,423</u>	<u>(4,677)</u>
Total public works	<u>82,600</u>	<u>59,300</u>	<u>49,960</u>	<u>(9,340)</u>

(Continued)

**CITY OF CEDAR SPRINGS**  
**General Fund**  
**Detail Schedule of Expenditures and Other Financing Uses**  
**Budget and Actual (Concluded)**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Recreation and cultural</b>				
Parks and recreation:				
Salaries and wages	\$ 7,000	\$ 15,000	\$ 16,479	\$ 1,479
Benefits	2,600	6,100	6,391	291
Operating supplies	800	800	38	(762)
Utilities	1,000	1,000	1,210	210
Repairs and maintenance	34,100	53,100	55,766	2,666
Miscellaneous	10,000	10,000	7,355	(2,645)
Total recreation and cultural	<u>55,500</u>	<u>86,000</u>	<u>87,239</u>	<u>1,239</u>
<b>Other expenditures</b>				
Unallocated employee benefits	27,900	35,900	30,897	(5,003)
Information technology	9,000	9,000	7,492	(1,508)
Total other expenditures	<u>36,900</u>	<u>44,900</u>	<u>38,389</u>	<u>(6,511)</u>
<b>Debt service</b>				
Principal	3,306	3,306	3,308	2
Interest	54	54	54	-
Total debt service	<u>3,360</u>	<u>3,360</u>	<u>3,362</u>	<u>2</u>
<b>Capital outlay</b>	<u>25,000</u>	<u>230,000</u>	<u>342,438</u>	<u>112,438</u>
Total expenditures	1,540,305	1,841,805	1,794,394	(47,411)
<b>Other financing uses</b>				
Transfers out	184,900	168,639	188,227	19,588
<b>Total expenditures and other financing uses</b>	<u>\$ 1,725,205</u>	<u>\$ 2,010,444</u>	<u>\$ 1,982,621</u>	<u>\$ (27,823)</u>

(Concluded)

## **NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF CEDAR SPRINGS**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2007**

	<b>Special Revenue</b>				
	<b>Major Street</b>	<b>Local Street</b>	<b>Refuse Pickup &amp; Disposal</b>	<b>Library</b>	<b>Sidewalk</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 149,880	\$ 198,793	\$ 15,903	\$ 81,732	\$ 8,946
Accounts receivable	208	28	67	-	22
Special assessments receivable	-	-	-	-	39,968
Due from other governmental units	11,180	4,308	-	3,130	-
Prepaid items	441	1,584	100	-	-
<b>Total assets</b>	<b>\$ 161,709</b>	<b>\$ 204,713</b>	<b>\$ 16,070</b>	<b>\$ 84,862</b>	<b>\$ 48,936</b>
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 2,896	\$ 816	\$ 4,322	\$ 3,932	\$ 70
Due to other funds	-	-	-	2,420	-
Deferred revenue	-	-	-	-	39,968
<b>Total liabilities</b>	<b>2,896</b>	<b>816</b>	<b>4,322</b>	<b>6,352</b>	<b>40,038</b>
<b>Fund balances</b>					
Reserved:					
Prepaid items	441	1,584	100	-	-
Cleo Cowles Memorial Trust	-	-	-	13,725	-
Perpetual care	-	-	-	-	-
Unreserved - undesignated	158,372	202,313	11,648	64,785	8,898
<b>Total fund balances</b>	<b>158,813</b>	<b>203,897</b>	<b>11,748</b>	<b>78,510</b>	<b>8,898</b>
<b>Total liabilities and fund balances</b>	<b>\$ 161,709</b>	<b>\$ 204,713</b>	<b>\$ 16,070</b>	<b>\$ 84,862</b>	<b>\$ 48,936</b>

<u>Debt Service</u>	<u>Capital Projects</u>					<u>Permanent</u>	<u>Total</u>
	<u>Capital Improvements</u>	<u>Michigan Transportation Bonds Construction</u>	<u>Pine Street Resurfacing and Sidewalk</u>	<u>Northland Drive Pathway and Sidewalk</u>	<u>Pine Street MDOT Grant Construction</u>	<u>Cemetery Trust</u>	
\$ 31,810	\$ 73,655	\$ -	\$ 25,610	\$ 28,707	\$ 62,254	\$ 158,790	\$ 836,080
-	-	-	116	11	100	20	572
31,968	-	-	-	-	-	-	71,936
-	-	-	-	-	-	-	18,618
-	-	-	-	-	-	-	2,125
<u>\$ 63,778</u>	<u>\$ 73,655</u>	<u>\$ -</u>	<u>\$ 25,726</u>	<u>\$ 28,718</u>	<u>\$ 62,354</u>	<u>\$ 158,810</u>	<u>\$ 929,331</u>
\$ -	\$ -	\$ -	\$ 759	\$ 685	\$ -	\$ -	\$ 13,480
-	-	-	-	-	-	-	2,420
31,968	-	-	-	-	-	-	71,936
<u>31,968</u>	<u>-</u>	<u>-</u>	<u>759</u>	<u>685</u>	<u>-</u>	<u>-</u>	<u>87,836</u>
-	-	-	-	-	-	-	2,125
-	-	-	-	-	-	-	13,725
-	-	-	-	-	-	10,000	10,000
31,810	73,655	-	24,967	28,033	62,354	148,810	815,645
<u>31,810</u>	<u>73,655</u>	<u>-</u>	<u>24,967</u>	<u>28,033</u>	<u>62,354</u>	<u>158,810</u>	<u>841,495</u>
<u>\$ 63,778</u>	<u>\$ 73,655</u>	<u>\$ -</u>	<u>\$ 25,726</u>	<u>\$ 28,718</u>	<u>\$ 62,354</u>	<u>\$ 158,810</u>	<u>\$ 929,331</u>

**CITY OF CEDAR SPRINGS**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

	Special Revenue				
	Major Street	Local Street	Refuse Pickup & Disposal	Library	Sidewalk
<b>Revenues</b>					
Taxes	\$ -	\$ -	\$ 22,640	\$ 66,231	\$ -
Special assessments	-	-	-	-	33,618
Intergovernmental revenue:					
State	138,319	53,297	-	6,157	-
Local	-	-	-	44,784	-
Charges for services	-	-	-	-	-
Fines and forfeitures	-	-	-	14,337	-
Interest	8,469	12,868	937	4,590	2,308
Other	-	-	1,551	27,080	36
Total revenues	<u>146,788</u>	<u>66,165</u>	<u>25,128</u>	<u>163,179</u>	<u>35,962</u>
<b>Expenditures</b>					
Current:					
Public works	-	-	34,133	-	-
Highways and streets	105,755	79,694	-	-	-
Recreation and cultural	-	-	-	144,744	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	<u>105,755</u>	<u>79,694</u>	<u>34,133</u>	<u>144,744</u>	<u>-</u>
Revenues over (under) expenditures	<u>41,033</u>	<u>(13,529)</u>	<u>(9,005)</u>	<u>18,435</u>	<u>35,962</u>
<b>Other financing sources (uses)</b>					
Transfers in	10,180	32,750	-	-	-
Transfers (out)	(57,781)	(87,339)	-	(19,812)	(65,350)
Proceeds from issuance of long-term debt	-	-	-	-	-
Total other financing sources (uses)	<u>(47,601)</u>	<u>(54,589)</u>	<u>-</u>	<u>(19,812)</u>	<u>(65,350)</u>
Net change in fund balances	(6,568)	(68,118)	(9,005)	(1,377)	(29,388)
Fund balances, beginning of year	<u>165,381</u>	<u>272,015</u>	<u>20,753</u>	<u>79,887</u>	<u>38,286</u>
<b>Fund balances, end of year</b>	<u><u>\$ 158,813</u></u>	<u><u>\$ 203,897</u></u>	<u><u>\$ 11,748</u></u>	<u><u>\$ 78,510</u></u>	<u><u>\$ 8,898</u></u>

Debt Service	Capital Projects					Permanent Cemetery Trust	Total
	Capital Improvements	Michigan Transportation Bonds Construction	Pine Street Resurfacing and Sidewalk	Northland Drive Pathway and Sidewalk	Pine Street MDOT Grant Construction		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 88,871
15,066	-	-	-	-	-	-	48,684
-	-	-	-	-	-	-	197,773
-	-	-	-	-	-	-	44,784
-	-	-	-	-	-	8,375	8,375
-	-	-	-	-	-	-	14,337
617	2,835	86	116	10	813	7,910	41,559
80	-	-	-	-	-	-	28,747
<u>15,763</u>	<u>2,835</u>	<u>86</u>	<u>116</u>	<u>10</u>	<u>813</u>	<u>16,285</u>	<u>473,130</u>
-	-	6,536	10,149	18,977	16,546	7,900	94,241
-	-	-	-	-	-	-	185,449
-	-	-	-	-	-	-	144,744
87,162	-	-	-	-	-	-	87,162
96,947	-	-	-	-	-	-	96,947
<u>184,109</u>	<u>-</u>	<u>6,536</u>	<u>10,149</u>	<u>18,977</u>	<u>16,546</u>	<u>7,900</u>	<u>608,543</u>
<u>(168,346)</u>	<u>2,835</u>	<u>(6,450)</u>	<u>(10,033)</u>	<u>(18,967)</u>	<u>(15,733)</u>	<u>8,385</u>	<u>(135,413)</u>
169,751	20,000	-	35,000	47,000	78,087	-	392,768
-	(10,180)	(128,550)	-	-	-	-	(369,012)
-	-	135,000	-	-	-	-	135,000
<u>169,751</u>	<u>9,820</u>	<u>6,450</u>	<u>35,000</u>	<u>47,000</u>	<u>78,087</u>	<u>-</u>	<u>158,756</u>
1,405	12,655	-	24,967	28,033	62,354	8,385	23,343
<u>30,405</u>	<u>61,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,425</u>	<u>818,152</u>
<u>\$ 31,810</u>	<u>\$ 73,655</u>	<u>\$ -</u>	<u>\$ 24,967</u>	<u>\$ 28,033</u>	<u>\$ 62,354</u>	<u>\$ 158,810</u>	<u>\$ 841,495</u>

**CITY OF CEDAR SPRINGS**  
**Major Street Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Intergovernmental revenue:				
State	\$ 131,000	\$ 131,000	\$ 138,319	\$ 7,319
Interest	6,000	8,000	8,469	469
	<u>137,000</u>	<u>139,000</u>	<u>146,788</u>	<u>7,788</u>
<b>Expenditures</b>				
Highways and streets:				
Construction	36,000	46,000	11,223	(34,777)
Routine maintenance	46,400	49,000	45,582	(3,418)
Traffic service	12,200	12,200	8,160	(4,040)
Winter maintenance	28,900	28,900	27,723	(1,177)
Administrative	16,200	16,465	13,067	(3,398)
	<u>139,700</u>	<u>152,565</u>	<u>105,755</u>	<u>(46,810)</u>
Revenues over (under) expenditures	<u>(2,700)</u>	<u>(13,565)</u>	<u>41,033</u>	<u>54,598</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	10,180	10,180	-
Transfers (out)	<u>(32,750)</u>	<u>(33,785)</u>	<u>(57,781)</u>	<u>(23,996)</u>
Total other financing sources (uses)	<u>(32,750)</u>	<u>(23,605)</u>	<u>(47,601)</u>	<u>(23,996)</u>
Net change in fund balance	<u>(35,450)</u>	<u>(37,170)</u>	<u>(6,568)</u>	<u>30,602</u>
Fund balance, beginning of year	<u>165,381</u>	<u>165,381</u>	<u>165,381</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 129,931</u></u>	<u><u>\$ 128,211</u></u>	<u><u>\$ 158,813</u></u>	<u><u>\$ 30,602</u></u>

**CITY OF CEDAR SPRINGS**  
**Local Street Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Intergovernmental revenue:				
State	\$ 50,500	\$ 53,500	\$ 53,297	\$ (203)
Interest	5,000	13,000	12,868	(132)
Total revenues	<u>55,500</u>	<u>66,500</u>	<u>66,165</u>	<u>(335)</u>
<b>Expenditures</b>				
Highways and streets:				
Construction	10,400	2,400	213	(2,187)
Routine maintenance	33,700	55,400	54,067	(1,333)
Traffic service	4,950	4,950	859	(4,091)
Winter maintenance	17,850	19,850	19,323	(527)
Administrative	7,950	8,150	5,232	(2,918)
Total expenditures	<u>74,850</u>	<u>90,750</u>	<u>79,694</u>	<u>(11,056)</u>
Revenues over (under) expenditures	<u>(19,350)</u>	<u>(24,250)</u>	<u>(13,529)</u>	<u>10,721</u>
<b>Other financing sources (uses)</b>				
Transfers in	32,750	32,750	32,750	-
Transfers (out)	(44,071)	(87,471)	(87,339)	132
Total other financing sources (uses)	<u>(11,321)</u>	<u>(54,721)</u>	<u>(54,589)</u>	<u>132</u>
Net change in fund balance	(30,671)	(78,971)	(68,118)	10,853
Fund balance, beginning of year	<u>272,015</u>	<u>272,015</u>	<u>272,015</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 241,344</u></u>	<u><u>\$ 193,044</u></u>	<u><u>\$ 203,897</u></u>	<u><u>\$ 10,853</u></u>

**CITY OF CEDAR SPRINGS**  
**Refuse Pickup & Disposal Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Taxes	\$ 22,600	\$ 22,600	\$ 22,640	\$ 40
Interest	700	950	937	(13)
Other	<u>1,650</u>	<u>1,650</u>	<u>1,551</u>	<u>(99)</u>
Total revenues	24,950	25,200	25,128	(13)
<b>Expenditures</b>				
Public works	<u>36,700</u>	<u>37,600</u>	<u>34,133</u>	<u>(3,467)</u>
Net change in fund balance	(11,750)	(12,400)	(9,005)	3,454
Fund balance, beginning of year	<u>20,753</u>	<u>20,753</u>	<u>20,753</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 9,003</u></u>	<u><u>\$ 8,353</u></u>	<u><u>\$ 11,748</u></u>	<u><u>\$ 3,454</u></u>

**CITY OF CEDAR SPRINGS**  
**Library Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Taxes	\$ 66,600	\$ 66,600	\$ 66,231	\$ (369)
Intergovernmental revenue:				
State	6,750	6,050	6,157	107
Local	42,000	44,474	44,784	310
Fines and forfeitures	15,500	14,150	14,337	187
Interest	1,500	3,800	4,590	790
Other	9,500	25,095	27,080	1,985
Total revenues	<u>141,850</u>	<u>160,169</u>	<u>163,179</u>	<u>3,010</u>
<b>Expenditures</b>				
Recreational and cultural:				
Salaries and benefits	87,300	80,300	79,862	(438)
Operating supplies	11,800	17,350	17,237	(113)
Telephone	1,300	1,300	1,362	62
Utilities	5,100	5,100	3,950	(1,150)
Repairs and maintenance	19,700	21,800	20,821	(979)
Rent	2,600	2,600	2,064	(536)
Insurance and bonds	7,700	7,580	5,780	(1,800)
Membership and dues	3,550	5,650	5,783	133
Professional service	1,000	3,800	3,822	22
Miscellaneous	1,300	4,300	4,063	(237)
Total expenditures	<u>141,350</u>	<u>149,780</u>	<u>144,744</u>	<u>(5,036)</u>
Revenues over expenditures	500	10,389	18,435	8,046
<b>Other financing (uses)</b>				
Transfers (out)	<u>-</u>	<u>(19,812)</u>	<u>(19,812)</u>	<u>-</u>
Net change in fund balance	500	(9,423)	(1,377)	8,046
Fund balance, beginning of year	<u>79,887</u>	<u>79,887</u>	<u>79,887</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 80,387</u></u>	<u><u>\$ 70,464</u></u>	<u><u>\$ 78,510</u></u>	<u><u>\$ 8,046</u></u>

**CITY OF CEDAR SPRINGS**  
**Sidewalk Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Special assessments	\$ 3,200	\$ 25,550	\$ 33,618	\$ 8,068
Interest	75	2,500	2,308	(192)
Other	25	25	36	11
	<u>3,300</u>	<u>28,075</u>	<u>35,962</u>	<u>7,887</u>
<b>Other financing (uses)</b>				
Transfers (out)	(7,350)	(65,350)	(65,350)	-
	<u>(4,050)</u>	<u>(37,275)</u>	<u>(29,388)</u>	<u>7,887</u>
Net change in fund balances				
	<u>(4,050)</u>	<u>(37,275)</u>	<u>(29,388)</u>	<u>7,887</u>
Fund balance, beginning of year	<u>38,286</u>	<u>38,286</u>	<u>38,286</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 34,236</u></u>	<u><u>\$ 1,011</u></u>	<u><u>\$ 8,898</u></u>	<u><u>\$ 7,887</u></u>

## **COMPONENT UNITS**

**CITY OF CEDAR SPRINGS**  
**Statement of Net Assets and Governmental Funds Balance Sheet**  
**Downtown Development Authority**  
**June 30, 2007**

	<u>General</u>	<u>Façade Improvements</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 10,865	\$ 82,133	\$ -	\$ 92,998
Accounts receivable	56	52	-	108
Capital assets not being depreciated	-	-	35,901	35,901
<b>Total assets</b>	<u>\$ 10,921</u>	<u>\$ 82,185</u>	<u>\$ 35,901</u>	<u>129,007</u>
<b>Liabilities and fund balance/net assets</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 18	\$ 110	\$ -	\$ 128
<b>Fund balance</b>				
Unreserved - undesignated	10,903	82,075	(92,978)	-
<b>Total liabilities and fund balance</b>	<u>\$ 10,921</u>	<u>\$ 82,185</u>	<u>(92,978)</u>	<u>128</u>
<b>Net assets</b>				
Invested in capital assets			35,901	35,901
Unrestricted			92,978	92,978
<b>Total net assets</b>			<u>\$ 128,879</u>	<u>\$ 128,879</u>

**CITY OF CEDAR SPRINGS**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Downtown Development Authority**  
**For the Year Ended June 30, 2007**

	<u>General</u>	<u>Façade Improvements</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<b>Expenditures/expenses</b>				
Public works	\$ 9,247	\$ 1,490	\$ -	\$ 10,737
<b>General revenues</b>				
Interest	509	3,945	-	4,454
Other revenue	-	310	-	310
Total general revenues	509	4,255	-	4,764
Net change in fund balance/net assets	(8,738)	2,765	-	(5,973)
Fund balance/net assets, beginning of year	19,641	79,310	\$ 35,901	134,852
<b>Fund balance/net assets, end of year</b>	<u>\$ 10,903</u>	<u>\$ 82,075</u>	<u>\$ -</u>	<u>\$ 128,879</u>

## **SCHEDULE OF INDEBTEDNESS**

**CITY OF CEDAR SPRINGS**

**Schedule of Indebtedness**

**June 30, 2007**

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Principal	Interest	Amount of Total Outstanding
<b>Primary Government Debt:</b>							
<u>Installment Debt</u>							
1997 Special Assessment and General Obligation Limited Tax Street Improvement Bonds	05/22/96	\$ 785,000	5 - 7%	10/01/07	\$ 35,000	\$ 9,500	\$ 44,500
				10/01/08	45,000	7,750	52,750
				10/01/09	45,000	5,500	50,500
				10/01/10	45,000	3,250	48,250
				10/01/11	20,000	1,000	21,000
					<u>190,000</u>	<u>27,000</u>	<u>217,000</u>
2003 General Obligation Improvement Bonds	04/17/03	1,985,000	2 - 4.4%	04/01/08	50,000	75,933	125,933
				04/01/09	55,000	74,433	129,433
				04/01/10	65,000	72,783	137,783
				04/01/11	70,000	70,670	140,670
				04/01/12	80,000	68,290	148,290
				04/01/13	85,000	65,490	150,490
				04/01/14	100,000	62,430	162,430
				04/01/15	110,000	58,630	168,630
				04/01/16	120,000	54,450	174,450
				04/01/17	130,000	49,890	179,890
				04/01/18	140,000	44,560	184,560
				04/01/19	155,000	38,820	193,820
				04/01/20	165,000	32,310	197,310
				04/01/21	180,000	25,380	205,380
				04/01/22	195,000	17,820	212,820
				04/01/23	210,000	9,240	219,240
					<u>1,910,000</u>	<u>821,129</u>	<u>2,731,129</u>
Michigan Transportation Fund Bonds	11/01/06	135,000	4.1 - 4.3%	10/01/07	5,000	5,653	10,653
				10/01/08	5,000	5,448	10,448
				10/01/09	5,000	5,243	10,243
				10/01/10	5,000	5,038	10,038
				10/01/11	5,000	4,833	9,833
				10/01/12	20,000	4,300	24,300
				10/01/13	21,000	3,419	24,419
				10/01/14	22,000	2,494	24,494
				10/01/15	23,000	1,527	24,527
				10/01/16	24,000	516	24,516
					<u>135,000</u>	<u>38,471</u>	<u>173,471</u>
Installment Purchase Agreement - Land	12/15/05	146,000	4.42%	12/14/07	7,466	5,887	13,353
				12/14/08	7,783	5,570	13,353
				12/14/09	8,113	5,240	13,353
				12/14/10	8,457	4,896	13,353
				12/14/11	8,815	4,538	13,353
				12/14/12	9,189	4,164	13,353
				12/14/13	9,578	3,774	13,352
				12/14/14	9,985	3,368	13,353
				12/14/15	10,408	2,945	13,353
				12/14/16	10,849	2,504	13,353
				12/14/17	11,309	2,044	13,353
				12/14/18	11,789	1,564	13,353
				12/14/19	12,289	1,064	13,353
				12/14/20	12,808	543	13,351
					<u>138,838</u>	<u>48,101</u>	<u>186,939</u>

(Continued)

**CITY OF CEDAR SPRINGS**  
**Schedule of Indebtedness (Continued)**  
**June 30, 2007**

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Principal	Interest	Amount of Total Outstanding				
<b>Primary Government Debt:</b>											
Installment Purchase Agreement - Land	09/01/06	88,000	4.40%	09/01/07	\$ 4,680	\$ 3,872	\$ 8,552				
				09/01/08	4,886	3,666	8,552				
				09/01/09	5,101	3,451	8,552				
				09/01/10	5,326	3,227	8,553				
				09/01/11	5,560	2,992	8,552				
				09/01/12	5,805	2,748	8,553				
				09/01/13	6,060	2,492	8,552				
				09/01/14	6,327	2,226	8,553				
				09/01/15	6,605	1,947	8,552				
				09/01/16	6,896	1,657	8,553				
				09/01/17	7,199	1,353	8,552				
				09/01/18	7,516	1,036	8,552				
				09/01/19	7,847	706	8,553				
				09/01/20	8,192	360	8,552				
					<u>88,000</u>	<u>31,733</u>	<u>119,733</u>				
				Accumulated Employee Benefits				<u>24,514</u>	<u>-</u>	<u>24,514</u>	
				Total General Obligation Debt				<u>2,486,352</u>	<u>966,434</u>	<u>3,452,786</u>	
				<b>Enterprise Funds</b>							
				1996A Sanitary Sewer System Revenue Bonds	03/04/97	\$ 3,000,000	4.50%	03/01/08	43,000	119,520	162,520
03/01/09	46,000	117,586	163,586								
03/01/10	47,000	115,516	162,516								
03/01/11	50,000	113,400	163,400								
03/01/12	52,000	111,150	163,150								
03/01/13	54,000	108,810	162,810								
03/01/14	57,000	106,380	163,380								
03/01/15	59,000	103,816	162,816								
03/01/16	62,000	101,160	163,160								
03/01/17	65,000	98,370	163,370								
03/01/18	67,000	95,446	162,446								
03/01/19	71,000	92,430	163,430								
03/01/20	74,000	89,236	163,236								
03/01/21	77,000	85,906	162,906								
03/01/22	81,000	82,440	163,440								
03/01/23	84,000	78,796	162,796								
03/01/24	88,000	75,016	163,016								
03/01/25	92,000	71,056	163,056								
03/01/26	96,000	66,916	162,916								
03/01/27	100,000	62,596	162,596								
03/01/28	105,000	58,096	163,096								
03/01/29	110,000	53,370	163,370								
03/01/30	114,000	48,420	162,420								
03/01/31	120,000	43,290	163,290								
03/01/32	125,000	37,890	162,890								
03/01/33	131,000	32,266	163,266								
03/01/34	137,000	26,370	163,370								
03/01/35	143,000	20,206	163,206								
03/01/36	149,000	13,770	162,770								
03/01/37	158,000	7,066	165,066								
	<u>2,657,000</u>	<u>2,236,290</u>	<u>4,893,290</u>								

(Continued)

**CITY OF CEDAR SPRINGS**  
**Schedule of Indebtedness (Continued)**  
**June 30, 2007**

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Principal	Interest	Amount of Total Outstanding
1996B Sanitary Sewer System Revenue Bonds	03/04/97	650,000	4.50%	03/01/08	\$ 9,000	\$ 25,876	\$ 34,876
				03/01/09	10,000	25,470	35,470
				03/01/10	10,000	25,020	35,020
				03/01/11	11,000	24,570	35,570
				03/01/12	11,000	24,076	35,076
				03/01/13	12,000	23,580	35,580
				03/01/14	12,000	23,040	35,040
				03/01/15	13,000	22,500	35,500
				03/01/16	13,000	21,916	34,916
				03/01/17	14,000	21,330	35,330
				03/01/18	15,000	20,700	35,700
				03/01/19	15,000	20,026	35,026
				03/01/20	16,000	19,350	35,350
				03/01/21	17,000	18,630	35,630
				03/01/22	17,000	17,866	34,866
				03/01/23	18,000	17,100	35,100
				03/01/24	19,000	16,290	35,290
				03/01/25	20,000	15,436	35,436
				03/01/26	21,000	14,536	35,536
				03/01/27	22,000	13,590	35,590
				03/01/28	23,000	12,600	35,600
				03/01/29	24,000	11,566	35,566
				03/01/30	25,000	10,486	35,486
				03/01/31	26,000	9,360	35,360
				03/01/32	27,000	8,190	35,190
				03/01/33	28,000	6,976	34,976
				03/01/34	30,000	5,716	35,716
				03/01/35	31,000	4,366	35,366
				03/01/36	32,000	2,970	34,970
				03/01/37	33,000	1,530	34,530
				574,000	484,662	1,058,662	
2002 Water Supply System Revenue Bonds	09/01/02	750,000	4.5 - 4.8%	09/01/07	30,000	31,200	61,200
				09/01/08	30,000	29,760	59,760
				09/01/09	30,000	28,320	58,320
				09/01/10	30,000	26,880	56,880
				09/01/11	35,000	25,440	60,440
				09/01/12	35,000	23,760	58,760
				09/01/13	35,000	22,080	57,080
				09/01/14	40,000	20,400	60,400
				09/01/15	40,000	18,480	58,480
				09/01/16	40,000	16,560	56,560
				09/01/17	45,000	14,640	59,640
				09/01/18	45,000	12,480	57,480
				09/01/19	50,000	10,320	60,320
				09/01/20	50,000	7,920	57,920
				09/01/21	55,000	5,520	60,520
09/01/22	60,000	2,880	62,880				
				650,000	296,640	946,640	
Total Enterprise Funds Bonds				3,881,000	3,017,592	6,898,592	
<b>Total Long-Term Debt-Primary Government</b>				<b>\$ 6,367,352</b>	<b>\$ 3,984,026</b>	<b>\$ 10,351,378</b>	

**INTERNAL CONTROL  
AND  
COMPLIANCE**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

September 26, 2007

Honorable Mayor and  
Members of the City Council  
Cedar Springs, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Cedar Springs, Michigan, as of and for the year ended June 30, 2007 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated September 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Cedar Springs, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Cedar Springs, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cedar Springs, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below as findings 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described below, we consider item 2007-1 to be a material weakness.

**Finding 2007-1 – Material Audit Adjustment - Accounting for Issuance of Long-term Debt**

- Criteria:** The City’s management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
- Condition:** The City financed the purchase of land with proceeds from the issuance of long-term debt. Neither the proceeds nor the related capital outlay expenditure were recorded in the accounting records. During our audit, we identified proposed a material adjustment, which was approved and posted by management, to properly record this transaction.
- Cause:** This condition was caused by management’s decision to have the City’s independent auditors propose an appropriate adjusting entry to record this transaction.
- Effect:** As a result of this condition, the City’s general fund proceeds from issuance of long-term debt and capital outlay expenditures were both initially understated by \$88,000.
- Recommendation:** We have reviewed with management the appropriate way to account for issuance of debt in the fund financial statements, and recommend that the City begin following this method for similar transactions in the future. As a result, the City will have a more accurate financial picture of the general fund throughout the fiscal year, and will not require material audit adjustments at year-end.
- View of Responsible Officials:** Management was aware that an adjustment was needed for this transaction, but determined that it was in the best interest of the City to rely on the auditors to propose the appropriate entry.

**Finding 2007-2 – Independent Review of Journal Entries**

- Criteria:** All journal entries and adjustments to the City’s accounting records should be reviewed and approved by an appropriate member of management.
- Condition:** In order to maintain a strong internal control environment, deter fraud, and prevent human error, it is necessary for journal entries to be reviewed and approved by a knowledgeable administrator.
- Cause:** The accounting profession is under increased scrutiny due to recent events involving misappropriation of assets and fraudulent activity. While we are aware of no such activity at the City, establishment of such a policy is necessary at all entities.
- Effect:** As a result of this condition, the City was exposed to increased risk of misappropriation of assets, fraud, and errors.

**Recommendation:** We recommend that the City establish and adhere to a policy of having an independent administrator review and approve all journal entries. The approval should be attached to a copy of the journal entry and filed along with appropriate supporting documentation.

**View of Responsible Officials:** The city has instituted a policy that requires all journal entries be reviewed and approved by a knowledgeable administrator.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Cedar Springs, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Cedar Springs, Michigan in a separate letter dated September 26, 2007.

The City's responses to the findings identified in our audit are described above. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

---

September 26, 2007

To the City Council of the  
City of Cedar Springs  
Cedar Springs, Michigan

We have audited the financial statements of the City of Cedar Springs for the year ended June 30, 2007, and have issued our report thereon dated September 26, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated June 5, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Cedar Springs. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Cedar Springs' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Cedar Springs are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Cedar Springs during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the allowance for uncollectible receivables is based on past experience and future expectation for collection of various account balances.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Cedar Springs' financial reporting process (that is, cause future financial statements to be materially misstated). We proposed certain journal entries, all of which were recorded by management, which in our judgment, had a significant effect on the City of Cedar Springs' financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Cedar Springs’ auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is positioned to the right of the "Very truly yours," text.

# City of Cedar Springs

## Comments and Recommendations

### For the Year Ended June 30, 2007

---

In planning and performing our audit of the financial statements of the City of Cedar Springs as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in which are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

#### **Other Matters**

##### **Compliance with Debt Covenants**

The City's Series 1996 Sewer bonds contain a debt covenant requiring a balance equal to one-fourth of the next scheduled principal payment and one-half of the next scheduled interest payment to be placed in a separate depository account. While the sewer fund does have sufficient cash to meet this requirement, and the City does maintain a separate depository account for purpose defined above, at year-end, the balance in this account did not meet the requirement. We recommend that the City calculate the required account balance and transfer the appropriate amount of funds into the bond repayment account quarterly, per the debt agreement.